% of Total FY 2004 General Fund: 4.20%

Reasons For Historical Changes

- Tax Changes
 - 1987 Federal Tax Reform Act of 1986 reduced top tax rate from 50 percent to 34 percent, repealed the investment tax credit, enacted less favorable investment depreciation, and increased the number of filers subject to the Alternative Minimum Tax from 24 percent to 45 percent
 - Added surtax of 4 percent for tax year 1988 (HB 703. 1987 Session Law Chapter 616)
 - Created "water's-edge" designation election (HB 703. 1987 Session Law Chapter 616)
 - Added surtax which increased tax rate of 5 percent, applicable in tax year 1990 (HB 28. 1989S Session Law Chapter 11)
 - 2003 Job Creation and Workers Assistance Act of 2002 enacted a first year bonus depreciation of 30 percent on assets put in service between 9/11/01 and 9/10/04
 - Estimated to cost Montana:
 - 3.0 million FY 2002

Forecast Methodology

FY 2003 5.1 million

- tion Act of 2003 extended the first year bonus depreciation provision of 2002, increasing the bonus to 50 percent and extending the provision for property acquired between 5/6/03 and 12/31/2004
 - Estimated to cost Montana (in coordination with 2002 JCWAA):

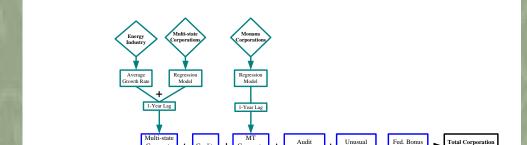
 - FY 2005
- 2005 Change in the distribution of "water's edge" revenues. (HB 721. 2003 Session Law Chapter 521)
- **Economic Changes**
 - Business cycle contractions, weakened economy:
 - Jan. 1980 through July 1980
 - July 1981 through Nov. 1982
 - July 1990 through Mar. 1991
 - Mar. 2001 through Nov. 2001
 - Stock Market Activity
 - Aug. 1982 First 100 million
 - Oct. 1997 Dow Jones Industrial Average drops 554 points. Circuit

2004 Jobs and Growth Tax Relief Reconcilia-

FY 2004 8.7 million

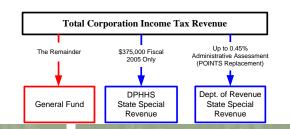
1.1 million

- share day



Audit

Distribution Methodology



Unusual

breaker rule went into effect for the first time, halting trading at 3:30 p.m.

- Oct. 1997 First billion share day
- Apr. 1998 New circuit breaker rules went into effect to halt trading when the Dow Jones Industrial Average drops 10, 20 and 30 percent
- Mar. 1999 The Dow Jones Industrial Average closed above the 10,000 mark for the first time
- First two billion Jan. 2001 share day
- Sept. 2001 NYSE closes for four days after terrorist attacks in U.S.
- Montana Specific Events
 - 1985 Significant audit activity
 - 1992 Significant audit activity
 - 2000-2001 Large utility asset sales
 - 2001 Significant audit activity
 - 2001-Present Large corporation bankruptcies
 - 2001-Present Significantly increased number and amount of NOL-carry-backs
 - 2004 Significant audit activity



LFD Mission Statement

We are committed to enhancing the legislative process through understandable and objective fiscal policy analysis and information.

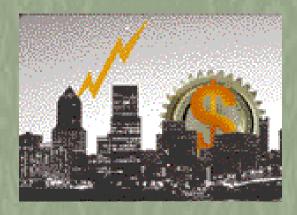
LEGISLATIVE FISCAL DIVISION



Taxes in Brief... Corporation Income Tax

November 2004

Fiscal Pocket Guide



Legislative Fiscal Division Revenue and Taxation Policy Room 110A, State Capitol Helena, MT 59620-1711 (406) 444-2986

Corporation Income Tax

Revenue Description:

The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation license tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.

Applicable Tax Rate(s):

The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

Distribution:

Beginning fiscal 2004 through fiscal 2011, the Department of Revenue may distribute up to 0.45% of this general fund revenue source as an administrative assessment to a state special revenue account to pay debt service on the loan used to fund a POINTS replacement computer system

(enacted in Senate Bill 271 by the 2003 legislature). In fiscal 2005 only, \$375,000 is distributed to the Department of Public Health and Human Services state special revenue account to match federal funds for Medicaid health services. All remaining corporation taxes are distributed to the general fund.

Collection Frequency:

Monthly, Quarterly, and Annually

Major Drivers:

- Corporate Profits
- Tax rate
- Audits
- Credits

Statutory Reference:

Tax Rate (MCA) - 15-31-121,

Tax Distribution (MCA) - 15-31-121, 15-1-501(1)

Date Due – by the 15th day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502). Estimated taxes due April 15th, June 15th, September 15th, and December 15th (15-31-502).

			Total	General Fund	GF
		Fiscal	Collections	Collections	Percent
ı		Year	Millions	Millions	Change
	A	1983	35.830832	28.832742	Not App.
į	A	1984	35.396240	28.573417	-0.90%
ı	Α	1985	62.609205	50.976990	78.41%
	A	1986	58.584784	47.121070	-7.56%
	Α	1987	34.566361	27.371125	-41.91%
ı	Α	1988	46.200104	37.584806	37.32%
į	A	1989	56.139749	46.152627	22.80%
ı	A	1990	80.315504	67.087905	45.36%
ı	Α	1991	70.784279	56.006784	-16.52%
	Α	1992	57.682672	47.027797	-16.03%
	Α	1993	85.054483	70.003987	48.86%
ı	Α	1994	68.871909	53.996713	-22.87%
١	A	1995	75.519940	57.425136	6.35%
ı	Α	1996	75.761891	59.336677	3.33%
ı	Α	1997	81.999138	64.078549	7.99%
١	Α	1998	77.928498	69.724680	8.81%
ı	A	1999	89.624560	80.142416	14.94%
ŀ	A	2000	99.088867	90.682672	13.15%
ì	A	2001	103.670487	103.670487	14.32%
١	A	2002	68.173253	68.173253	-34.24%
١	A	2003	44.137518	44.137518	-35.26%
	A	2004	67.722940	67.722940	53.44%
ĺ	F	2005	66.332000	66.332000	-2.05%
	F	2006	80.621000	80.621000	21.54%
	F	2007	77.927000	77.927000	-3.34%
10					

